

County of Roanoke

Department of Finance
5204 Bernard Drive, PO Box 29800
Roanoke, VA 24018

November 16, 2005

To the Honorable Chairman, Members of the Board of Supervisors, and Citizens of the County of Roanoke, Virginia:

State law requires that every general-purpose local government publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2005.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The auditing firm of KPMG LLP has issued an unqualified opinion on the County of Roanoke's basic financial statements as of and for the year ended June 30, 2005 contained in this report. The independent auditors' report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the Government

Roanoke County (the County) is primarily the suburban hub of the Roanoke Valley. Within the County's geographical boundaries lie the cities of Roanoke and Salem, as well as the Town of Vinton. The County's provisional population is 88,200¹, up by 2.8% from the 2000 census. The County is part of the Roanoke Metropolitan Statistical Area (MSA) that has a total population of 291,000 an increase of 0.9% over the 2000 census. The County is within easy reach of major markets for local manufacturers and distributors via Interstate 81 and railway access.

The County is governed by a charter approved by the 1986 session of the Virginia General Assembly which grants additional authority to the County Administrator. The Board of Supervisors is the governing body of the County. Members of the Board, one from each of five magisterial districts, are elected to four-year terms. Board members annually select a Chairman and Vice-Chairman to each serve a one-year term.

¹ Population source: VA Stats, Weldon Cooper Center, Charlottesville, VA

The Board appoints a County Administrator to act as administrative head of the County. The County Administrator serves at the pleasure of the Board, carries out its policies and directs business procedures. All department heads report to the County Administrator except for the County Attorney who reports directly to the Board. Five constitutional officers (Commissioner of the Revenue, Commonwealth's Attorney, Clerk of the Circuit Court, Sheriff, and Treasurer) are elected by the voters of the County and are not accountable to the Board, but work closely with the Board and the County Administrator.

The County of Roanoke provides a full range of services, including police and fire protection, sanitation services, general public improvements, planning and zoning management, recreation and cultural activities, and general administrative services. Residents enjoy certain other services provided by joint cooperation with neighboring localities such as airport facilities, solid waste facilities, water and sewer services, and schools for the education of physically and mentally challenged students. The Roanoke County Public Schools, henceforth known as the "Schools" or "School System", is a component unit of the County and as such is part of this reporting entity. Additional information for the Schools is available in the separately published Roanoke County Public Schools comprehensive annual financial report.

The Board of Supervisors is required to adopt a final budget no later than the close of the fiscal year. The annual budget serves as the foundation for the County of Roanoke's financial planning and control. The budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department directors may transfer resources within a department as they see fit.

Local Economy

The County draws from a regional labor force of 370,000 within a radius of sixty miles. The average unemployment rate for the Roanoke Valley during the 12-month period ended June 30, 2005 was 3.1%². Though marginally higher than the prior year, this rate compares favorably with the State average of 3.7% for the same period. Stabilizing economic conditions combined with a well-educated labor force, low utility rates, affordable housing, and a compelling quality of life contribute to the interest of companies locating and expanding in the Roanoke Valley.

The County's Economic Development Department successfully utilizes provisions under the public/private partnership policy that allows businesses to receive assistance from the County for qualifying facility expansions and relocations. The expected return on investment in new taxes and employment is a critical measure governing the use of public funds to assist businesses and industries.

Integrity Windows and Doors, a leading manufacturer of windows and doors opened a state-of-the-art 200,000 square-foot manufacturing facility in August 2004. The plant, located in the Valley Gateway Business Park, is expected to create a total of 150 jobs by the end of 2005 and 350 jobs by the end of 2008.

One major economic development event will often spur other industries or providers to come into the same area to either complement or compete. Tecton Products, LLC, a manufacturer of pultruded composite products announced its choice of Roanoke County's Center for Research and Technology as the site of its first Virginia plant. Tecton Products is the second company to locate in the Roanoke Valley as a result of Integrity Windows and Doors. Cardinal Glass also announced a Roanoke County location in October 2003. Tecton Products, LLC will invest \$6.5

² Virginia Employment Commission statistics

million in the first phase of the project and create 58 new jobs with an additional investment of \$5.6 million and 93 more jobs by 2011 with Phase II.

Headquartered in Fargo, N.D., Tecton Products is the world's largest manufacturer of thin walled complex shaped pultrusions. During Tecton's pultrusion process, glass reinforcements are impregnated with proprietary liquid resin and pulled through a heated die. The resulting composite profile is strong, thermally stable, insulating and resistant to corrosion, chemicals and moisture.

Economic growth is sustained by attracting new business, as well as maintaining existing business. The County's existing industry and business retention program is an integral part of economic development efforts. Establishing dialogue with existing companies and developing relationships with business leaders enables the County to provide appropriate assistance. County Supervisors, the County Administrator, local business representatives, and the Economic Development staff meet regularly at Magisterial District gatherings to explore business issues and opportunities, and formulate strategic plans. Such collaboration in fiscal year 2005 led to the expansion of businesses such as Per-Se Technology, Member One Credit Union and Carpetland.

The economic outlook for the Roanoke Valley is optimistic. With its diverse employment base, ready access to major markets, low construction costs, pro-business climate, and compelling quality of life, Roanoke County is well positioned for continued economic growth in the years ahead.

Long-Term Financial Planning

This year, the Board of Supervisors adopted a formal policy for the establishment, maintenance, and use of unreserved general fund balance to provide for the long-term economic stability of the County of Roanoke. The rating agencies carefully monitor levels of unreserved fund balance in a government's general fund to evaluate a government's continued creditworthiness. The rating agencies recommend that the unreserved balance be maintained at a level between 10% and 15% of the general fund revenues. The current national hurricane emergencies have served as an example of the need to be prepared financially as well as physically.

Since 1989, the Board has followed an informal goal of maintaining an unreserved fund balance at 6.25% of the general fund revenues. In December 2004, the Board of Supervisors adopted a formal policy that would increase the unreserved fund balance incrementally over a seven year period. According to the policy, the County will reach 11% of general fund revenues by the 2010-2011 fiscal year. At June 30, 2005, great progress was made towards this goal with undesignated fund balance for the general fund at approximately \$12.9 million or 8.8% of fiscal year 2005 general fund revenues.

Relevant Financial Policies

The County of Roanoke adopted a year end balance policy this year that allocates the balance at the end of a fiscal year from excess revenues and/or unspent expenditures to capital projects. In order to fund projects identified in the Capital Improvement Plan, the new policy allocates all of the revenues in excess of budget at year end, first to the General Fund Unappropriated Balance, until the maximum amount for the current year is met and next to the Major Capital Fund. Also, forty percent of unspent expenditure appropriations at year end are allocated to Minor Capital Projects which are other projects identified and prioritized with costs less than

\$500,000. These policies were adopted in conjunction with the School System to ensure continued funding for needed capital improvements.

Major Initiatives

Initiatives of the Board of Supervisors promote Roanoke County's economic progress, improve the community's quality of life and poise the County to respond to future development needs. The County is committed to providing available housing in quality neighborhoods and continues to receive positive publicity for the quality of life enjoyed by citizens and potential business prospects. Major initiatives for 2005 include several areas: Regionalism, Education, Public Safety, Economic Development, Capital Improvement, and Quality of Life.

Water Authority: On July 1, 2004, the County of Roanoke and the City of Roanoke (City) formed the Western Virginia Water Authority, a regional water and wastewater authority. This full service authority serves both County and City citizens ensuring a reliable and efficient means of providing water and wastewater treatment, at the lowest cost and best rate and service for its customers. The assets and liabilities of the County and City water and wastewater utilities were merged into one full service authority.

Education: Roanoke County Public Schools is the 17th largest of 132 schools systems in the Commonwealth of Virginia. The School System provides a broad spectrum of educational opportunities for 14,365 students between the ages of 3 and 21 at seventeen elementary schools, five middle schools, five high schools, and three specialty centers.

For the fourth year in a row, the School System has been designated a Gold Medal school district by *Expansion Management* in its annual Education Quotient™ issue. The School System ranked fourth highest in Virginia and in the top 16% of school districts in the United States with an enrollment of 3,300 or more students.

Based on preliminary reporting from the state for the 2005 testing window, County students exceeded the passing requirements on all of the Standards of Learning (SOL) tests administered and 100% of our schools are expected to be fully accredited for fiscal year 2004-05. In addition, the School System satisfied all twenty-nine categories necessary to meet the adequate yearly progress (AYP) requirement under the No Child Left Behind federal legislation. The School System is one of only a handful of schools in Virginia who met AYP for 2004-05 for all schools and the division as a whole.

The School Board and the County continue to place a major emphasis on the capital needs in the School System. In 1996, the School Board and the County Board of Supervisors formed a Blue Ribbon Committee to outline the capital needs of the school division for the next ten years. The Committee, composed of citizens throughout the County, worked with a consultant to develop a School Capital Construction Program. In August 2002, \$47.7 million of Phase I projects were completed with another \$23.4 million of Phase II projects expected to be complete in 2005. In March 2005, the School Board adopted Phase III of capital projects at a total cost of \$55 million.

Fire and Rescue/EMS Services: As a sign of continued regional cooperation, the City of Roanoke Fire-EMS and the Roanoke County Fire and Rescue departments developed a new automatic aid agreement designed to improve service to citizens in both jurisdictions during

2004-05. The new system provides emergency assistance from the closest location resulting in improved response time.

Public Safety Center: Construction of the Public Safety Center began in April 2005. The \$28 million project will be constructed adjacent to the Roanoke County School Administration Building off of Cove Road. The 77,000 square foot building will house the Police Department, Fire and Rescue Administrative Offices, and Information Technology Department. A portion of the building will also house the emergency radio system shared by the County and the City of Roanoke and includes a new Emergency Communications Dispatch Center (E-911 Center) that will encompass 14 new dispatch stations, a new Computer Aided Dispatch System, and new 911-telephone equipment.

Regional Jail The County and several neighboring jurisdictions have a documented need for more jail space. The Commonwealth of Virginia encourages localities to build regional jails by providing 50 percent funding for the construction costs of these facilities. The County initiated a regional cooperative effort with the County of Franklin, the County of Montgomery and the City of Salem to form the Western Virginia Regional Jail Authority.

This \$88 million project has been approved by the Virginia Department of Corrections. The project is now in the detailed design stage, and should be ready for construction to begin in September 2006. The new facility will be operational in September 2008.

The Western Virginia Regional Jail Authority is a separate legal entity, and as such has its own capacity for borrowing. The debt of the facility will not show as an obligation of any of the participating localities. The localities are responsible for paying their share of the facility based on the number of beds used, as outlined in the Service Agreement.

Center for Research and Technology: The County continues to develop a 457-acre business park that is located adjacent to interstate I-81. The plan for the Center is to make it a combination of technology businesses and a high-end housing development in order to attract technology businesses to the Roanoke area. Currently, Novozymes Biologicals, Inc. operates a facility in the park which develops and produces naturally occurring microorganisms. Also, Tecton Products, LLC, a manufacturer of pultruded composite products, will begin construction of its facility in the park in the Fall of 2005.

Parks, Recreation, and Tourism (PRT): The County parks system and recreational programs are major factors in the quality of life enjoyed by Roanoke Valley residents. They also serve the County's efforts to attract and retain business and industry, as well as attracting visitors to the area. Roanoke County Parks, Recreation, and Tourism are embarking on a Master Plan that will guide all future development of the parks, facilities, and programs.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County of Roanoke for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2004. This was the twenty first consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the fiscal year beginning July 1, 2004. This was the eighteenth consecutive year that the government received this prestigious award. In order to qualify the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

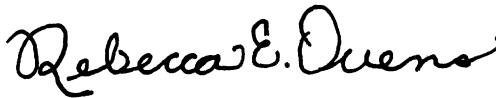
Roanoke County Public Schools received its fourth consecutive Certificate of Achievement for Excellence in Financial Reporting for its comprehensive annual financial report for the fiscal year ended June 30, 2004.

We would like to express our sincere gratitude to the personnel in the Department of Finance for their dedication to assuring the financial integrity of the County of Roanoke and the preparation of this report. Appreciation is also extended to the Board of Supervisors and the administration, whose continuing leadership and support is essential to the financial health of the County of Roanoke.

Sincerely,



Elmer C. Hodge
County Administrator



Rebecca E. Owens, MBA
Director of Finance



Diane D. Hyatt, CPA
Chief Financial Officer